

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

COPI

WITNESS: Jeffrey K. Skilling  
PAGES: 275 through 514  
PLACE: 450 Fifth Street, NW

Washington, D.C. 20549-0806

DATE: Thursday, December 6, 2001

The above-entitled matter came on for hearing, pursuant to notice, at 9:43 a.m.

APPEARANCES:

On behalf of the Securities and Exchange Commission:

CHRISTOPHER CUTLER, ESQ. Division of Enforcement  
DOUGLAS B. PAUL, ESQ.  
LINDA CHATMAN THOMSEN, ESQ.  
BETH LEHMAN, ESQ.  
JOHN H. LOESCH, ESQ.  
ALEX LIPMAN, ESQ.  
LUIS R. MEJIA, ESQ.  
GEORGE SPANOS, CPA  
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Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, D.C. 20549-0806  
(202) 942-4682

On behalf of the Witness:

BRUCE A. HILER, ESQ.  
ELIZABETH H. BAIRD, ESQ.

1           So what I'm doing is I'm trying to paint a picture  
2   for you of, kind of, my mental condition as we came into the  
3   year 2001. I had to -- it was in the contract, and the board  
4   expected me to move up and become CEO, to agree to that in  
5   the end of November.

6           In the end of November, California was breaking  
7   loose. It was a mess, and I decided I got to -- and then the  
8   broadband. We'd started this fiber optics business, and it  
9   had just gone into a free fall. I mean, the marketplace had  
10  just gone into free fall, and I knew I need to fix that, too.  
11  I mean, that was one that I'd be spending an awful lot of  
12  time on, and so I knew I had to stick around and get the  
13  company through this very unusual time period.

14           BY MR. CUTLER:

15           Q     Just to stop you, when did you accept the position  
16  as CEO?

17           A     I think they announced it at the end of November.

18           Q     Okay.

19           A     Of 2000.

20           Q     So this is right before the whole PG&E business  
21  started?

22           A     It was starting then. We knew they were -- the  
23  price shot up in May, came down a little bit in the summer,  
24  and then by September and October it was going nuts. I mean,  
25  it was absolutely going -- by December it was a disaster.

1 They were talking about turning off the lights, and rolling  
2 brown-outs in California. It was just a mess.

3 So I was in -- I was tired. I mean, I was really  
4 tired. And then to crown it all off, I mean, the thing that,  
5 kind of, pushed me every the edge I had a speech in  
6 California, and this was a very important speech. It was to  
7 one of the clubs, one of the think tanks out in San  
8 Francisco.

9 And our security guy said I shouldn't go. They  
10 were very concerned about it. I talked to Ken, and we said  
11 we have to go. They were saying bad things about us. It was  
12 just terrible. And I said, "Okay. I'm going to go. We're  
13 not going to chicken out. We're going to go." I went out  
14 there and there were people protesting and screaming and

15 yelling and throwing things, and all that.

16 I went to give this talk, and there were people  
17 shouting and jump up and down, and all that. And then all of  
18 a sudden this woman in the front row comes up and slams a pie  
19 in my face. That sounds funny, and I guess it sounded funny  
20 at the time, but it was very threatening.

21 I mean, you know, I have three children. That

22 could have just as easily been a knife or a gun as it could  
23 have been a pie. It was not funny. It was terrifying. I  
24 mean, it was just awful. And I wasn't sleeping. And this is  
25 the infamous asshole comment I'm sure you all have heard

1 about with the analyst on the telephone that said it was  
2 arrogance. It wasn't arrogance. It was absolute exhaustion.

3 We're doing our first quarter earnings release, I  
4 think it was, and this guy, a short seller, just started, you  
5 know, "Well, when are you going to publish your balance  
6 sheet?" We always publish it two week after we publish our  
7 quarterly numbers.

8 "Well, why don't you publish it --" and it was  
9 clear. I mean, this guy knew exactly what the deal was, but  
10 he was just -- he was using our conference call -- he was a  
11 short guy. He was trying to drive down the price. And we  
12 knew he was short because we knew the name of the  
13 institution. We didn't know if it was short selling company.  
14 It was a short selling fund.

15 And I listened to him, and I talked to him, and he  
16 went on for about two minutes. Our conference calls are  
17 normally 15, 20 minutes long, and this guy is just dominating  
18 it. And finally I said, "I'm sorry, sir. We just have to  
19 stop this conversation." And we hung up, and I said  
20 "asshole." I was tired. I was frustrated, and I was angry.

21 And I wish I hadn't done that. I really wish I  
22 hadn't done that. because I felt really bad about it. I felt

---

23 I'd let down the company because this thing hit the press,  
24 and it made us look like a bunch of hot dogs, and all the  
25 rest of that. And right there I said this is it. This is

1 just not the right thing for me.

2 I didn't particular like being CEO, spending more  
3 time on the external stuff. I didn't particularly like that.  
4 I didn't like being recognized around town. Didn't like it,  
5 so I finally went to Ken on July 13th, Friday the 13th, and I  
6 said I want out.

7 And I said, "The reason I want out is I think I've  
8 fixed everything. California now is okay. Prices have come  
9 back down again. We've got all the reserves in place.  
10 There's nothing that can -- we're bullet proof out there.  
11 We're in good shape in California.

12 The broadband business I cut 75 percent of the  
13 staff in the broadband business, cut the capital budget by 90  
14 percent. It wasn't fun. We got that thing done. India,  
15 this power plant that we've got we had all sorts of problems  
16 in India. The president of India was coming to New York in  
17 September. It looked like we were okay there, that they were  
18 probably going to try to resolve things.

19 The last two weeks of June we had our best two  
20 weeks ever in the merchant business. I mean, we were doing  
21 great. I mean, business was just rocking and rolling, and  
22 July was looking good at that point. Everything was fine. I  
23 said, "Ken, if I don't get out now, I'll never get out. I've  
24 just got to spend --" can I go off the record for anything  
25 here, for two minutes?

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1 MR. CUTLER: Sure.

2 (A brief recess was taken.)

3 MR. CUTLER: We're back on the record.

4 BY MR. CUTLER:

5 Q Mr. Skilling, did you sell Enron stock in 2000 and  
6 2001?

7 A Yes.

8 Q Why?

9 A I've sold stock, I think some stock every year that  
10 I've been with the company because I view it as part  
11 compensation and wanted to sell.

12 Q The documents you produced show that you put a  
13 sales plan in place.

14 A Yes.

15 Q Okay. Why did that happen?

16 A Well, there was always something big going on at  
17 Enron, and so there were very few windows for stock sales.  
18 And there were always so many announcements that it just  
19 looked like there was something going on when there wasn't.

20 You have multiple management people that were  
21 selling during the windows. It windows were so short it  
22 looked like there was something happening, you know, that  
23 there was something -- when it was just sales transactions.

24 So I had read about the SEC coming out with a rule  
25 that you could start -- I forget what it was called. It was

1       like you'd file a plan of disposal or a sale plan, and as  
2       long as that plan was put in place during a window, then you  
3       could put it in place, and it could continue onward.

4               And so Ken Lay and I asked Rex Rogers, who is our  
5       SEC attorney, to research it, and he came back and he  
6       recommended it. He said this is probably a good idea for  
7       everyone in the company, and we told the management committee  
8       that if you do want to sell stock we would recommend that you  
9       put some sort of a plan like this in place.

10              The intent the last couple years is I would  
11       typically want to sell about a fifth of my position in a  
12       year, because as the stock price continued to escalate -- it  
13       was growing, the number of equivalent shares I had. They  
14       gave me new options every year, and that sort of thing.

15              So I figured if we're aiming for about a fifth that  
16       could be, kind of, ten years, you know, with the new stuff,  
17       and everything. And I've seen, like, a reasonable -- you  
18       know, one-tenth, or something, seemed like a reasonable  
19       disposal or sale plan.

20              Q       Did others at Enron have a stock plan put in place?

21              A       I believe so.

22              Q       Do you know who?

23              A       I don't know.

24              Q       And this stock plan was for about 10,000 shares per  
25       week?

1           A     Yes.

2           Q     Okay. After you resigned from Enron, what happened  
3 to your stock sale plan?

4           A     Well, I terminated the stock sale plan. I think it  
5 was in June. The stock had dropped. It had dropped pretty  
6 significantly. It got down to, like, \$42 or \$43, and I  
7 thought that was ludicrous. I thought that was not a  
8 reasonable price for the stock.

9                     We were projecting for next year that we'd earn  
10 about \$220 to \$225 a share, earnings-per-share. And even at  
11 a 20 multiple that's what -- you know, that would be a \$45  
12 stock.

13          Q     From the time that you set up the stock plan in, I  
14 guess it was, November 15, 2000, to the time you resigned,  
15 what was going on with the stock?

16          A     It had gone from kind of -- it was kind of in the  
17 mid-70s. It had gone up and, you know, kind of fluttered  
18 around but, kind of, mid-70s for the last year and a half, or  
19 something like that. And then starting in about January  
20 that's when this high tech -- the telecom thing went in the  
21 tank. We had this optical fiber business, and I think we had  
22 probably \$20 of value in stock for our telecom business. And  
23 then all these -- you know, all the telecom business just  
24 went in the tank.

25          Q     Is that why you think the stock was decreasing from



1       that \$70 level to the \$40 level that you talked about?

2           A       That and California. People were very concerned  
3       about the impact of California on long-term deregulation and  
4       that this might stymie the movement toward deregulation,  
5       which was an important part of our growth story.

6           Q       And if they stymied deregulation, then Enron  
7       wouldn't make as much as --

8           A       Wouldn't grow as fast.

9           Q       Wouldn't grow as fast. Okay.

10          A       Wouldn't grow as fast, yeah.

11          Q       So after you resigned, your stock plan ceased to  
12       exist?

13          A       Well, no. I terminated the stock plan in June. I  
14       didn't resign until -- I actually terminated my employment --  
15       or I resigned, I guess, August 14th, something like that. So  
16       I terminated the plan in June.

17                 What Rex had said is that you were allowed to  
18       terminate it if you just thought it was just out of line. He  
19       said you have to treat that as a significant decision, but I  
20       said the stock price is too low. Again, we're going to earn  
21       220.

22                 In a 20 multiple, we should have been at 45 at a  
23       minimum, and we were growing by 30 percent a year. So 26  
24       percent growth in earnings-per-share I felt the stock price  
25       should be much higher than a 20 multiple. So I terminated

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1 the stock plan in June. The stock was about 42 or 43.

2 Q Did you sell any stock after you terminated your  
3 stock plan?

4 A Yes. I left -- I resigned on August 14 from Enron.  
5 When I left Enron, I had vested -- I gave up a number of  
6 unvested options. I had vested options and stock to the tune  
7 of about 1 and a half million shares, something like that and  
8 intended to keep it.

9 The stock then was -- after I was done it went down  
10 a little more. So it was kind of at the \$38 range, \$36  
11 range, something like that, and then September 11th happened.  
12 And then I got scared. I like my Enron stock, but I was  
13 scared after September 11th. So when the markets reopened  
14 that next Monday I sold 500,000 additional shares at \$30 a  
15 share.

16 Q How did you do that stock sale of 500,000?

17 A I went to my broker and said sell it.

18 Q We have certain documents that indicate that there  
19 was a delivery of about 210,000 shares from one brokerage  
20 account to another.

21 A Yes.

22 Q Why did you do that?

23 A Well, because the brokerage account that -- there  
24 was this thing. I think it's called a captive brokerage  
25 account. Paine Webber was the service provider for Enron.

1       So when you exercise options, it went into the Paine Webber  
2       account.

3               I think, actually -- that sales plan that I had was  
4       actually, I think, with Paine Webber, because they were the  
5       only ones that could do it. Schwab didn't have that service.  
6       But Schwab was cheaper to transact, so when I left Enron I  
7       shut down the account at Paine Webber and just moved  
8       everything over to the Schwab account.

9               BY MR. PAUL:

10              Q     Did any of the fundamentals -- I think you said  
11       that you terminated your plan in June because you believed  
12       the fundamentals of Enron were there, and it was just trading  
13       lower than it should be. June to September did any of the  
14       fundamentals change?

15              A     The fundamentals got better. The California thing  
16       looked like it was fixed. So Cal was not going to go down.  
17       So Cal Edison looked like it was not going to go down.  
18       Things were calming down. Just the noise level had dropped  
19       significantly.

20              The bandwidth business had stabilized. By July  
21       we'd terminated a bunch of people, but it was stabilized.  
22       Everything was in pretty good shape, and the similar was  
23       softer. The dollar was getting a little softer. One of the  
24       issues about some of the international assets is that when  
25       the dollar is real high the natural buyers are European, and

1 so it's harder to sell.

2 And the dollar looked like it was softening, so I  
3 felt like everything was -- things were in better -- when I  
4 left on August 14th, the company was in better shape than it  
5 had been as long as I'd been with the company, for as long as  
6 I'd been with the company, in my view.

7 MR. HILER: Did you find out after you left that a  
8 window had opened at the company for selling stock?

9 THE WITNESS: Well, subsequently. I felt they were  
10 going to have a great year this year. I mean, there was a  
11 lot of volatility in the energy market. Enron tends to do  
12 very well in volatile energy markets.

13 So I wanted to wait and see what happened as the  
14 year progressed, but I was very optimistic until this  
15 September 11th thing hit. But I did check. I wanted to just  
16 clear up everything and make sure that it was okay for me to  
17 transact.

18 So I called Rex Rogers at Enron and just said if at

---

19 any time I should decide that I would like to transact, I'd  
20 like you to send a letter to my broker say I'm no longer a  
21 16(b) officer and all the rest of that, and I'm okay. So Rex  
22 had sent that letter.

23 And then I also asked him, I said I'd also like to  
24 know if there has been an open window subsequent to me  
25 leaving Enron, because I knew -- I had heard zero since I

1 left Enron. I'd talked to no one, had no more information.  
2 So I figured if the window was open -- I made this call after  
3 the building blew up and that next Monday when the exchange  
4 opened again.

5 BY MR. CUTLER:

6 Q When did you make the call?

7 BY MR. PAUL:

8 Q Sometime from the 11th to the 17th?

9 A 11th to the 17th, yes. Sometime during that time  
10 frame. So I asked Rex, I said, "Look, I'm concerned about  
11 this." I said, "I don't know what I'm going to do. If I  
12 want to sell something, what do you think of that? Is that  
13 okay? Are you guys okay with that?"

14 And he said, "Well," he said, "that's all up to  
15 you. I can't tell you whether to sell your stock or not." I  
16 said, "Well, tell me this. Has there been a window open for  
17 Enron executives subsequent to me leaving the company?" And  
18 he said yes, there had been.

19 So I figured at that point I knew nothing more than  
20 the people that were there, and so if the window was opened,  
21 then I figured there had been nothing material that had  
22 occurred since I'd left and that it was okay for other people  
23 to transact, so it probably would have been okay for me to  
24 transact.

25 BY MR. CUTLER:

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1           Q     Now, what about -- first question is is there any  
2 other reasons other than September 11th?

3           A     There was no other reason other than September 11th  
4 that I sold the stock.

5           Q     Okay. Now, I understand that there was a time  
6 delay between when the market closed down and when they  
7 opened up the following Monday. Did you think about whether  
8 or not the decision to sell was a good decision?

9           A     Oh, I agonized over it, absolutely agonized over  
10 it.

11          Q     So you gave it some thought, I assume. What were  
12 the contents of your thinking about why you should sell Enron  
13 sock?

14          A     I saw a stock market -- and you can ask anybody  
15 that knows me. I cannot believe the stock market is where it  
16 is right now. I mean, you got the market selling at 28 or 29  
17 multiple. We're moving into a possible deflationary  
18 environment. The market typically bottoms out at a 7  
19 multiple.

20                I believe the market is going to drop sometime by  
21 75 percent over the next year, the next three months, I  
22 think. And then after the September 11th thing I thought it  
23 was going to happen -- as soon as that market opened I  
24 figured we'd be down at 6,000, 5,000, 6,000, and it was going  
25 to drift down to 2- or 3,000, and that's where it was going

1 to bottom before it started back up again.

2 I thought the market was a disaster waiting to  
3 happen, but I liked Enron. I liked the prospects for Enron.  
4 I believe to this day the vision of Enron. If you ever want  
5 my opinion of what happened, I'd be happy to give you my  
6 opinion of what happened, but I believe the vision of what we  
7 were trying to do and the business model we had and why it  
8 was a good business model.

9 And the company was doing great. I mean, the  
10 wholesale, the merchant business was in phenomenal condition.  
11 I mean, it was doing fantastic.

12 Q So outside of September 11th you expected or  
13 thought that Enron's stock price was going to increase?

14 A I didn't know if it would be able to buck the  
15 market after September 11th. I believed the market would be  
16 down 70, 80 percent. I think Enron would do better than the  
17 market in general, but I didn't believe anyone could buck the  
18 market.

19 Q Did you sell any other stock holdings because of  
20 September 11th?

21 A Because of September 11th, no.

22 Q Why not?

23 A I didn't have any others. I didn't own any other  
24 stock. Everything I had was either Enron stock or bond  
25 funds. I didn't own any other stock.

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1 BY MR. LIPMAN:

2 Q Let me ask you one follow-up on this. You expected  
3 the market to have a problem even before September 11th,  
4 correct?

5 A Yes.

6 Q Did you have a plan before September 11th to sell  
7 some portion of your Enron holdings?

8 A I was holding onto Enron. I shorted AES, which was  
9 a stock that I believed -- I disagreed with the market in  
10 general, and so I shorted the stock.

11 Q When was that?

12 A End of August.

13 Q Did you short any other stock or did you do any  
14 options transactions, or anything else?

15 A No.

16 MR. CUTLER: Was there a question pending?

17 MR. LIPMAN: No.

18 BY MR. CUTLER:

19 Q So Enron was the only stock you had. How many  
20 shares did you have?

21 A I had about 1 million shares and 500,000 vested  
22 options.

23 Q So you sold 500,000?

24 A I sold 500,000 shares.

25 Q Did you ever think about selling your entire



1 position in Enron?

2 A I didn't want to.

3 Q Why not?

4 A I felt that that was enough. I was confident  
5 enough in Enron I thought Enron might buck the trend, might  
6 be able to buck the trend in the market.

7 Q Was there ever any thought that September 11th  
8 might actually help Enron's business?

9 A No.

10 Q You mentioned you did a transaction with shares of  
11 AES, and we can talk about that in a little bit. Did you  
12 ever have any type of relationship with anybody at AES?

13 A No.

14 Q Did Enron ever transact business with AES?

15 A I don't know that Enron transacted business. We  
16 may have sold them some gas. I don't know.

17 Q And eventually there came a point when you short  
18 sold AES stock?

19 A Yes.

20 Q Eight hundred thousand shares?

21 A Yes.

22 Q And why did you do that?

23 A Well, because AES invested very heavily in  
24 international power plants and pipelines. So their  
25 international business looked, I thought, very much like

1 Enron's international business except they were in worse  
2 places. We were in Brazil. They were in Khazakstan. We  
3 were in Guatemala. They were in Nicaragua. We were in  
4 India. They were in Pakistan. Just every single dimension  
5 where we were they were worse, and we had taken a hit.

6 I mean, our earnings out of our international  
7 business were -- they had dropped. They were not earning --  
8 but their earnings kept going up. AES's earnings kept going  
9 up, and I kept thinking, gee, they must be so much better at  
10 this than us. How do they do this?

11 MR. HILER: Did they have the trading side of the  
12 business?

13 THE WITNESS: They did not have the trading side of  
14 the business that we had. So all they had was just the  
15 international development side. So then I was reading the  
16 Wall Street Journal for their second quarter earnings  
17 release, and their earnings were up again.

18 And I was going, now, how can that be? The  
19 Brazilian Real has just collapsed. They've got a bunch of  
20 stock in Brazil. There's a power shortage in Brazil, so  
21 they're rationing down there, so that would hurt their  
22 distribution business. I mean, how could their earnings be  
23 up?

24 And then I read the thing. It said the reason they  
25 were up is they had taken as revenue, as revenue recognition,

1 a balancing account that was building with a local regulator  
2 in Brazil. It, basically, said they will make the pole for  
3 the curtailments in the future.

4 And I'd been down talking to our guys. They're  
5 never going to get paid for that stuff. They are never going  
6 to get paid for that stuff, and that was just the -- I said,  
7 you know, these guys -- it's not for real. And I believed  
8 that for a long time.

9 Again, you can ask a lot of people. People that  
10 asked me my investment advice has been to short AES. So  
11 finally, when I left the company, I had enough time to  
12 actually sit down and call my broker and do it.

13 BY MR. PAUL:

14 Q And did you short AES on your Schwab account?

15 A Yes.

16 Q Do you recall when you actually did short AES?

17 A End of August. I think there were two  
18 transactions. There was one half of it, like, the last week  
19 in August and then half the first week in September,  
20 something like that. So I figured when the market came down  
21 these guys would come down even worse.

22 Q And this is this is the only stock that you've ever  
23 shorted?

24 A Yes.

25 Q Do you still maintain that position with AES?

1 A No. I closed it out.

2 Q When did you close that out?

3 A It was right before Thanksgiving.

4 Q Why at that point did you decide to close out your  
5 short position you had?

6 A Stock was down 60 percent, or something, so I  
7 figured let's go ahead -- stock broker called up and said it  
8 can't go below zero, so I, kind of, agreed with him and  
9 closed the account.

10 BY MR. CUTLER:

11 Q Did you know that AES warned on their numbers  
12 sometime in September?

13 A Yes.

14 Q They made a pre-announcement. Did you know that  
15 AES was going to make some type of a warnings announcement  
16 before you shorted the stock?

17 A I did not. Absolutely did not.

18 Q Recently there was some news regarding AES, that  
19 they had called off some sort of merger talks, and a  
20 subsequent press release came with that particular  
21 announcement. Again, did you know of the calling off of the  
22 merger before you closed out your --

23 A No.

24 Q -- short position?

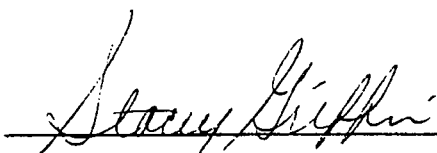
25 A No. I know no one at AES. I have not talked to a



PROOFREADER'S CERTIFICATE

In the Matter of: ENRON CORPORATION  
Witness: Jeffrey K. Skilling  
File Number: HO-9350  
Date: Thursday, December 6, 2001  
Location: Washington, D.C. 20549-0806

This is to certify that I, Stacey B. Griffin (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.



(Proofreader's Name)



(Date)

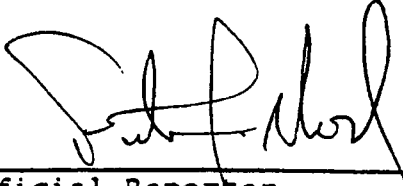
U.S. SECURITIES AND EXCHANGE COMMISSION

REPORTER'S CERTIFICATE

I, Peter K. Shoverd, reporter,  
herby certify that the foregoing transcript consisting of  
\_\_\_\_\_ pages is a complete, true, and accurate transcript of  
the testimony indicated, held on December 6, 2001  
at SEC HQ, Washington, DC in the matter of:  
Enron Corp.

I further certify that this proceeding was recorded by  
me, and that the foregoing transcript has been prepared under  
my direction.

Date December 6, 2001

  
\_\_\_\_\_  
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